NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. Statement of significant accounting policies

AWE Limited (the "Company") is a company domiciled in Australia. The consolidated financial statements of the Company for the financial year ended 30 June 2012 comprises the Company and its controlled entities (together referred to as the "consolidated entity").

(a) Basis of preparation

(i) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial statements also comply with International Financial Reporting Standards (IFRSs) and interpretations issued but not yet adopted by the International Accounting Standards Board.

The accounting policies set out in Note 1 have been applied consistently to all periods presented in these consolidated financial statements. Certain comparative amounts have been reclassified to conform with the current year's presentation.

The consolidated financial statements were authorised for issue by the directors on 27 August 2012.

(ii) Functional and presentation currency

The financial statements are presented in Australian Dollars, which is the Company's functional currency and the functional currency of the majority of controlled entities within the consolidated entity.

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission ("ASIC"), relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(iii) Basis of measurement

The financial statements are prepared on the historical cost basis except that derivative financial instruments and available for sale financial assets are stated at their fair value.

(iv) Uses of estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to:

Exploration and evaluation assets

The consolidated entity's accounting policy for exploration and evaluation expenditure is set out at Note 1 (k). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under this policy, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement. Changes in assumptions may result in a material adjustment to the carrying amount of exploration and evaluation assets.

Restoration obligations

The consolidated entity estimates the future removal costs of production facilities and wells at the time of installation of the assets. In most instances, removal of assets occurs many years into the future. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, future removal technologies in determining the removal cost, and asset specific discount rates to determine the present value of these cash flows. The consolidated entity's accounting policy for restoration obligations is set out at Note 1(q).

Reserve estimates

Estimates of recoverable quantities of proven and probable reserves reported include assumptions regarding commodity prices, exchange rates, discount rates, production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the amount of depreciation and amortisation charged to the income statement.

Impairment of oil and gas assets

The consolidated entity assesses whether oil and gas assets are impaired when preparing its annual and interim financial statements. Estimates of the recoverable amount of oil and gas assets are made based on the present value of future cash flows.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. Statement of significant accounting policies (continued)

Income taxes

The consolidated entity is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity estimates its tax liabilities based on the consolidated entity's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity investments at the date on which they are granted.

Australian Government's carbon pricing mechanism

The Australian Government's Clean Energy Act (CEA) was enacted during the period leading to a potential obligation, from the 2013 financial year, to acquire and surrender eligible emission units in respect of the covered emissions from operated and non-operated facilities under AWE's existing joint venture arrangements (or be liable to unit shortfall charges). The expected cash flows arising from any liability arising under the CEA have been included in the estimated recoverable amount for assets when assessing their carrying values; however the impact on the recoverable amount is not expected to be material.

Australian Government's proposed expanded Petroleum Resource Rent Tax ("PRRT")

The Australian Government has enacted legislation during the period to extend the PRRT regime to all onshore oil and gas projects, applying from 1 July 2012. PRRT will be applied to onshore and offshore oil and gas projects at a rate of 40%. State petroleum royalties will continue to apply to projects within state jurisdictions; however these royalties will be fully creditable against PRRT liabilities. The extended PRRT will apply to AWE's onshore Perth basin operations, however it is not expected to have a material impact on the recoverability of the carrying amount of assets as at 30 June 2012.

Disclosures in relation to PRRT for the year ended 30 June 2012 in the consolidated financial statements are in relation to both onshore and offshore oil and gas projects.

(b) Basis of consolidation

(i) Controlled entities

Controlled entities are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Jointly controlled operations and assets

The interests of the Company and of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in the financial statements the proportionate share of the assets they control, the liabilities and expenses they incur, and their share of the income that they earn from the sale of goods or services by the joint venture.

(iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(iv) Changes in ownership interests

The consolidated entity treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the consolidated entity. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of AWE Limited.

When the consolidated entity ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the consolidated entity had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

1. Statement of significant accounting policies (continued)

(c) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the consolidated entity. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the consolidated entity recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of total consideration transferred over the fair value of the consolidated entity's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the end of the reporting period. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

(iii) Presentation of foreign exchange gains and losses in the income statement

The consolidated entity presents its foreign exchange gains and losses within net financing income/expense in the income statement.

(e) Impairment

The carrying amounts of the Company's and the consolidated entity's assets, other than inventories (refer note 1(h)) and deferred tax assets (refer note 1(t)), are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(g) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement between 14 and 30 days.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. Statement of significant accounting policies (continued)

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(h) Inventory

Oil inventory is recorded at the lower of cost and net realisable value. Cost is determined on an average basis and includes production costs and amortisation of producing oil and gas assets.

Other inventories are recorded at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(i) Investments and other financial assets

Classification

The consolidated entity classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

(i) Financial assets at fair value through profit or loss

A financial asset is classified as fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 12) in the statement of financial position.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the consolidated entity's management has the positive intention and ability to hold to maturity. If the consolidated entity were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long-term.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the consolidated entity's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

1. Statement of significant accounting policies (continued)

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Details on how the fair value of financial instruments is determined are disclosed in note 31.

Impairment

The consolidated entity assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

If there is evidence of impairment for any of the consolidated entity's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

(j) Property, plant and equipment

(i) Oil and gas assets

The cost of oil and gas producing assets and capitalised expenditure on oil and gas assets under development are accounted for separately and are stated at cost less accumulated depreciation and impairment losses. Costs include expenditure that is directly attributable to the acquisition or construction of the item as well as past exploration and evaluation costs. In addition, costs include, (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

When an oil and gas asset commences production, costs carried forward will be amortised on a units of production basis over the life of the economically recoverable reserves. Changes in factors such as estimates of economically recoverable reserves that affect amortisation calculations do not give rise to prior financial period adjustments and are dealt with on a prospective basis.

Expenditure on major maintenance refits or overhauls comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated will result, the expenditure is capitalised. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. All other maintenance costs are expensed as incurred.

(ii) Other plant and equipment

The cost of other plant and equipment is stated at cost less accumulated depreciation and impairment losses. Costs include, (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Other plant and equipment is depreciated using the straight line method over its estimated useful life. The depreciation rates used for other plant and equipment are in the range 5% to 27% (2011: 5% to 27%).

(k) Exploration and evaluation

Exploration and evaluation costs are accumulated in respect of each separate area of interest and are accounted for using the successful efforts method of accounting. An area of interest is usually represented by an individual oil or gas field.

The cost of acquisition of joint venture interests, successful drilling costs and costs incurred in relation to feasibility studies and the technical evaluation of a potential development are carried forward where right to tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or where the assessment to determine the existence of economically recoverable reserves for a potential development in an area of interest is not yet complete. Exploration licence acquisition is subject to impairment testing annually. Where potential impairment is indicated, assessment is performed for each area of interest to which the exploration and evaluation expenditure is attributed. To the extent that capitalised expenditure is not expected to be recovered it is charged to the income statement.

All other exploration and evaluation costs, including pre-licence costs are expensed as incurred.

(l) Capitalised borrowing costs

Borrowing costs relating to oil and gas assets under development up to the date of commencement of operations are capitalised as a cost of the development. Where funds are borrowed specifically for qualifying projects the actual borrowing costs incurred are capitalised. Where the projects are funded through general borrowings the borrowing costs are capitalised based on the weighted average borrowing rate. Other borrowing costs are expensed.

1. Statement of significant accounting policies (continued)

(m) Intangible assets

The costs of computer software and loan establishment fees are stated at cost less accumulated depreciation. Amortisation on computer software is calculated on a straight-line basis over 2.5 years. Amortisation on loan establishment fees is calculated on a straight-line basis over the life of the loan.

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 14 days of recognition.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as an intangible asset and amortised over the period of the facility to which it relates.

(p) Employee benefits

(i) Wages, salaries and annual leave

The provisions for employee entitlements to wages, salaries and annual leave represents the amount which the consolidated entity has a present obligation to pay resulting from employees' services provided up to the end of each reporting period. The provisions have been calculated at undiscounted amounts based on wage and salary rates that the consolidated entity expects to pay and include related on-costs.

(ii) Long-term service benefits

Long service leave represents the present value of the estimated future cash outflows to be made resulting from an employee's services provided to the end of each reporting period. The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at balance date which most closely match the terms of maturity of the related liabilities.

(iii) Share-based payment transactions

Share-based compensation benefits are provided to employees via the Employee Share Rights Plan and the Employee Share Option Plan. Information relating to these schemes is set out in note 21.

The fair value of rights granted is recognised as an employee expense with a corresponding increase in equity. The fair value of the rights granted is measured using the Black-Scholes Option Pricing model, and includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value of the options granted is measured using a modified binomial option pricing model, and includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

Non-market and service related vesting conditions are included in assumptions about the number of rights and options that are expected to vest.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of rights and options that are expected to vest based on the non-market and service related vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(iv) Superannuation plans

Obligations for contributions to accumulation type superannuation plans are recognised as an expense in the income statement as incurred.

(q) Provisions

A provision is recognised in the statement of financial position when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Site restoration

Provisions made for decommissioning, restoration and environmental rehabilitation are recognised where there is a present obligation as a result of exploration, development or production activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas. The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the obligation at the end of each reporting period, based on current legal requirements and technology. The ultimate costs are

1. Statement of significant accounting policies (continued)

uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new techniques or experience at other production sites. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period. The amount of the provision for future restoration costs relating to exploration and development activities is capitalised as a cost of those activities. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money, and where appropriate the risks specific to the liability. The unwinding of discounting on the provision is recognised as a finance cost.

(r) Revenue recognition

(i) Sales revenue

Revenue from the sale of oil and gas is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue received during the commissioning phase of oil and gas assets is recorded, together with the related costs of production, against the capitalised carrying value of the asset.

(ii) Other revenues

Other revenues are recognised on an accrual basis and include royalty receipts and equipment rental income.

(s) Leased assets

Leases of property, plant and equipment where the consolidated entity, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the consolidated entity as lessee are classified as operating leases and are not recognised on the consolidated entity's statement of financial position. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(t) Taxation

(i) Income tax

Income tax on the income statement comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in controlled entities to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(ii) Petroleum Resource Rent Tax ("PRRT") and other government royalties

In addition to corporate income taxes, the consolidated financial statements also include and disclose certain taxes determined from oil and gas production and levied on net income.

Resource rent taxes and government royalties are treated as taxation arrangements when they are imposed under Government authority and when the calculation of the amount payable falls within the definition of "taxable profit" for the purposes of AASB 112. Current and deferred tax is then provided on the same basis as described in (i) above.

Royalty arrangements that do not meet the criteria for treatment as a tax are recognised on an accruals basis.

(iii) Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is AWE Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using a modified stand alone tax allocation methodology.

1. Statement of significant accounting policies (continued)

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the controlled entities are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangements.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head company only.

(iv) Nature of tax funding and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

(u) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office ("ATO") is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(v) Segment reporting

An operating segment is a component of the consolidated entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the consolidated entity's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment assets include both oil and gas assets, exploration assets and other assets, such as cash, receivables and inventory, which are directly attributable to the segment.

Unallocated items comprise mainly head office income and expenses, foreign exchange gains and losses and corporate assets.

(w) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares, share rights or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares, share rights or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example, as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(x) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(y) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2012 reporting periods. The consolidated entity has not elected to early adopt any pronouncements before their operative date in the current reporting period ended 30 June 2012. The consolidated entity's assessment of the impact of these new standards and interpretations is set out below.

1. Statement of significant accounting policies (continued)

TITLE OF STANDARD	APPLICATION DATE(1)	NATURE OF AMENDMENT AND IMPACT ON AWE LIMITED
AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 101]	1 July 2012	In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The consolidated entity intends to adopt the new standard from 1 July 2012.
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2013	AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. There will be no impact on the consolidated entity's accounting for financial liabilities, as the new requirements only affect the accounting of financial liabilities that are designated as at fair value through profit or loss and the consolidated entity does not have such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The consolidated entity has not yet decided when to adopt AASB 9.
IFRS 10 Consolidated Financial Statements	1 January 2013	IFRS 10 establishes a new control model that applies to all entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group. While the consolidated entity does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.
IFRS 11 Joint Arrangements	1 January 2013	IFRS 11 uses the principle of control in IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group. While the consolidated entity does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be joint ventures or joint arrangement under the new rules.
IFRS 12 Disclosures of Interests in Other Entities	1 January 2013	IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. The consolidated entity is yet to assess the full impact of this change.
IFRS 13 Fair Value Measurement	1 January 2013	IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets. IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. The consolidated entity is yet to assess the full impact of this change.
AASB119 Employee benefits	1 January 2013	The AASB has issued a revised standard on accounting for employee benefits which will become applicable for financial reporting periods commencing on or after 1 January 2013. The revised standard is not expected to have a significant impact on employee benefit expenses or employee provisions of the consolidated entity.
AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	1 July 2013	In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

(1) Application date of standards is the annual reporting period beginning on or after the given dates

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2. Revenue

	2012 $'000	2011 $'000
Sales revenue – oil and gas	**298,354**	304,870
Other revenue from continuing operations	**1,373**	1,201
	299,727	306,071

3. Cost of sales

	2012 $'000	2011 $'000
Production costs	**101,280**	131,789
Royalties	**7,942**	3,178
Amortisation (refer note 16)	**79,628**	104,910
Movement in oil inventory:		
Production costs	**472**	(1,907)
Amortisation	**910**	(2,354)
	190,232	235,616
Made up of:		
Production costs (net of movement in oil inventory)	**101,752**	129,882
Royalties	**7,942**	3,178
Amortisation (net of movement in oil inventory)	**80,538**	102,556
	190,232	235,616

4. Other income

	2012 $'000	2011 $'000
Net gain on disposal of available-for-sale financial assets	**12,681**	1,426
Net gain on disposal of part interest in BassGas project	**2,402**	–
Insurance recovery	**2,600**	–
Other income	**394**	101
	18,077	1,527

The disposal of an interest in the BassGas project results in a net gain (pre-tax) of $2.4 million and loss (post-tax) of $0.1 million.

5. Other expenses

	2012 $'000	2011 $'000
Merger and acquisition costs expensed	**–**	215
Share-based payments	**1,571**	2,038
Loss on disposal of fixed assets	**–**	207
	1,571	2,460

6. Net financing (expense)/income

	2012 $'000	2011 $'000
Interest income	**3,623**	1,673
Net foreign exchange gain	**660**	–
Financial income	**4,283**	1,673
Other borrowing costs	**(4,792)**	(3,384)
Unwinding of discount – restoration provisions (refer note 22)	**(3,773)**	(3,650)
Net foreign exchange loss	**–**	(8,154)
Financial expense	**(8,565)**	(15,188)
Net financing expense	**(4,282)**	(13,515)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

7. Taxation expense

	2012 $'000	2011 $'000
Recognised in income statement		
Tax expense comprises:		
Income Tax		
Current tax expense	**(12,495)**	(2,546)
Adjustments from prior years	**(227)**	1,691
Tax expense related to movements in deferred tax balances	**28,998**	38,203
Net effect of tax losses derecognised	**–**	(16,740)
	16,276	20,608
PRRT/APR		
Current tax expense	**(16,818)**	(9,825)
Tax (expense)/benefit related to movements in deferred tax balances	**(9,682)**	32,197
Tax benefit recognised from introduction of onshore PRRT	**6,864**	–
	(19,636)	22,372
Tax (expense)/benefit reported in the consolidated income statement	**(3,360)**	42,980
Numerical reconciliation between loss before tax and tax (expense)/benefit:		
Loss before tax	**(63,136)**	(160,535)
Prima facie taxation benefit at 30% (2011: 30%)	**18,941**	48,160
(Increase)/decrease in income tax expense due to:		
Non-deductible expenses	**(6,302)**	(5,784)
Overseas tax losses not recognised as a deferred tax asset	**(3,708)**	(8,817)
Derecognition of tax losses	**–**	(20,323)
Foreign exchange and other translation adjustments	**(717)**	1,949
PRRT (net of income tax deduction for PRRT)*	**–**	(192)
APR (net of income tax deduction for APR paid)*	**(11,646)**	(6,987)
Deferred PRRT and royalty related tax expense*	**(9,682)**	32,197
Recognition of onshore PRRT deferred tax asset*	**6,864**	–
Realised loss on available-for-sale financial assets	**2,914**	–
Other	**181**	1,086
Adjustments for prior years	**(205)**	1,691
Total tax (expense)/benefit	**(3,360)**	42,980

For information in relation to taxation payments made during the financial year refer to the Consolidated Statement of Cash Flows. For further information in relation to tax payable and deferred tax assets and liabilities refer to notes 23 and 24.

* As a producer of oil and gas in Australian and New Zealand offshore waters, the consolidated entity is subject to, in addition to income tax, additional government imposts in the form of PRRT in Australia and APR in New Zealand. PRRT is levied on Australian offshore oil and gas production operations and from 1 July 2012 to onshore operation at a rate of 40% of project profits after allowing for the recoupment of past deductible project costs and after appropriate compounding of these past costs. Further, subject to the satisfaction of certain tests, exploration costs incurred by the consolidated entity can be transferred to PRRT payable projects thereby having the effect of reducing or deferring the actual liability to pay PRRT. Similarly, APR is levied on the Tui production operation in New Zealand at a rate of 20% of project profits after allowing for the recoupment of past deductible project costs. However, these past project costs are not compounded and exploration costs incurred outside of the Tui project cannot be transferred to the Tui project. PRRT and APR are deductible for income tax purposes in Australia and New Zealand respectively.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

8. Earnings per share

	2012 $'000	2011 $'000
Loss reconciliation		
Basic and diluted earnings	**(66,496)**	(117,555)

	2012 NUMBER	2011 NUMBER
Weighted average number of ordinary shares		
Issued ordinary shares – opening balance	**521,871,941**	521,871,941
Effect of shares issued	**–**	–
Weighted average number of ordinary shares	**521,871,941**	521,871,941
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares at 30 June	**521,871,941**	521,871,941
Effect of employee rights on issue	**8,884,217**	5,001,207
Weighted average number of ordinary shares (diluted)	**530,756,158**	526,873,148

	2012 CENTS	2011 CENTS
Basic and diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	**(12.74)**	(22.53)

9. Auditors' remuneration

	2012 $	2011 $
Audit services		
Auditor of the Company		
Ernst & Young Australia		
▪ Audit and review of financial reports	**242,200**	226,600
Other services		
Auditor of the Company		
Ernst & Young Australia		
▪ Taxation compliance services	**95,000**	140,659
▪ Due diligence procedures related to asset acquisition	**62,160**	–
Overseas Ernst & Young firms		
▪ Taxation compliance services	**–**	3,283
	157,160	143,942

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

10. Segment reporting

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions. The chief operating decision maker considers the business from both a product and a geographic perspective and on this basis has identified seven reportable segments. For each reportable segment, the chief operating decision maker reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the consolidated entity's reportable segments:

- New Zealand – production and sale of crude oil from the Tui Area oil project (PMP 38158, offshore Taranaki Basin, New Zealand);
- South-Eastern Australia Gas – production and sale of gas, condensate and LPG from the BassGas (T/L1, Bass Basin, offshore southern Australia) and Casino gas (VIC/L 24, Otway Basin, offshore southern Australia) projects;
- Western Australia Oil and Gas – production and sale of crude oil, gas and condensate from the Cliff Head oil project (WA 31 L, Perth Basin, offshore Western Australia) and a series of small oil and gas fields to the south of Dongara, Western Australia;
- United States – production and sale of gas and condensate from the Sugarloaf AMI (Texas, United States of America);
- Indonesia – development and exploration assets acquired during the year ended 30 June 2012 including the undeveloped Ande Ande Lumut oil (AAL) field;
- Exploration Activities – exploration and evaluation activities within the production licences and exploration permits held by AWE; and
- Other – other oil and gas fields in which interests are held by AWE Limited and its subsidiaries.

(b) Segment information provided to the chief operating decision maker for the year ending 30 June

	NEW ZEALAND		SOUTH-EASTERN AUSTRALIA GAS		WESTERN AUSTRALIA OIL AND GAS		UNITED STATES		INDONESIA		EXPLORATION ACTIVITIES		OTHER		TOTAL	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Sales revenue	**110,883**	105,130	**72,376**	115,538	**98,397**	78,310	**16,698**	5,832	**–**	–	**–**	–	**–**	60	**298,354**	304,870
Production costs	**(23,419)**	(44,312)	**(39,604)**	(38,566)	**(35,922)**	(46,424)	**(2,807)**	(503)	**–**	–	**–**	–	**–**	(77)	**(101,752)**	(129,882)
Royalties	**(1,293)**	(833)	**(45)**	(102)	**(572)**	(777)	**(6,032)**	(1,466)	**–**	–	**–**	–	**–**	–	**(7,942)**	(3,178)
Net contribution from producing oil and gas fields	**86,171**	59,985	**32,727**	76,870	**61,903**	31,109	**7,859**	3,863	**–**	–	**–**	–	**–**	(17)	**188,660**	171,810
Exploration and evaluation expenses	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(36,477)**	(63,289)	**–**	–	**(36,477)**	(63,289)
Amortisation	**(21,469)**	(21,932)	**(33,927)**	(55,836)	**(19,952)**	(22,520)	**(5,190)**	(2,268)	**–**	–	**–**	–	**–**	–	**(80,538)**	(102,556)
Impairment	**–**	–	**(138,151)**	–	**–**	(35,686)	**–**	–	**–**	–	**–**	(101,324)	**–**	–	**(138,151)**	(137,010)
Reportable segment profit/(loss)	**64,702**	38,053	**(139,351)**	21,034	**41,951**	(27,097)	**2,669**	1,595	**–**	–	**(36,477)**	(164,613)	**–**	(17)	**(66,506)**	(131,045)
Unallocated income/(expenses):																
Other revenue															**1,373**	1,201
Administration expenses															**(10,226)**	(16,243)
Net financing expense															**(4,283)**	(13,515)
Other income/(expense)															**16,506**	(933)
Net loss before income tax															**(63,136)**	(160,535)
Segment assets:																
Oil and gas assets	**65,753**	83,138	**434,178**	544,194	**101,372**	121,994	**111,435**	94,403	**134,288**	–	**–**	–	**–**	–	**847,026**	843,729
Exploration assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**84,155**	82,516	**–**	–	**84,155**	82,516
Other assets	**5,940**	7,107	**18,253**	5,813	**2,270**	6,648	**–**	1,776	**–**	–	**–**	–	**–**	–	**26,463**	21,344
	71,693	90,245	**452,431**	550,007	**103,642**	128,642	**111,435**	96,179	**134,288**	–	**84,155**	82,516	**–**	–	**957,644**	947,589
Corporate and unallocated assets															**104,364**	167,809
Total assets															**1,062,008**	1,115,398

For details of taxation paid by the consolidated entity refer to the Statement of Cash Flow.

10. Segment reporting (continued)

(c) Major customers

The consolidated entity had revenues from four external customers that each represent greater than 10% of total sales revenue, and when combined represent 87.29% of total sales revenue (2011: three external customers; 81%):

	2012 $'000	2011 $'000
Revenues from major customers by segment		
New Zealand	**110,884**	105,310
South-Eastern Australia Gas	**72,376**	83,405
Western Australia Oil and Gas	**77,174**	57,893
	260,434	246,608

11. Cash and cash equivalents

	2012 $'000	2011 $'000
Bank balances	**1,500**	3,588
Call deposits	**14,237**	102,450
Cash held by joint ventures (refer note 26(b))	**27,022**	11,130
	42,759	117,168

12. Trade and other receivables

	2012 $'000	2011 $'000
Current		
Trade receivables	**31,688**	22,815
Interest receivable	**43**	108
Joint venture receivables (refer note 26(b))	**3,212**	8,888
Prepayments	**1,448**	594
Other receivables	**6,024**	1,357
	42,415	33,762
Non-current		
Other receivables	**3,197**	–

Foreign exchange, commodity price and credit risk

Information about the consolidated entity's exposure to foreign currency risk, commodity price risk and credit risk in relation to trade and other receivables is provided in note 31.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

13. Inventories

	2012 $'000	2011 $'000
Current		
Oil inventory	**3,703**	4,877
Spares and consumables (refer note 26(b))	**3,913**	8,096
	7,616	12,973

14. Investments

	2012 $'000	2011 $'000
Current		
Available for sale financial assets	**–**	15,927

On 29 July 2011 AWE's wholly-owned subsidiary ARC Energy Limited sold all of its ordinary shares held in Buru Energy Limited. The shares in Buru Energy Limited were classified as a current available-for-sale financial asset as at 30 June 2011. The net proceeds from sale of shares is reflected in note 4.

All available for sale investments are denominated in Australian currency. For an analysis of the sensitivity of available-for-sale financial assets to price risk, refer to note 31.

15. Exploration and evaluation assets

	2012 $'000	2011 $'000
Exploration and/or evaluation phase (at cost)	**84,154**	82,516
Reconciliation of movements:		
Carrying amount at the beginning of the financial year	**82,516**	271,347
Transfer to oil and gas assets (2011: Sugarloaf AMI)	**–**	(88,740)
Additions (net of amount recovered from joint ventures)	**39,236**	67,402
Foreign exchange translation difference	**544**	(2,880)
Exploration costs incurred and expensed during the year	**(36,477)**	(63,289)
Impairment charge	**–**	(101,324)
Disposals	**(1,665)**	–
Carrying amount at the end of the financial year	**84,154**	82,516

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

Impairment

There was nil impairment in respect of exploration and evaluation assets during the year ended 30 June 2012.

The impairment at 30 June 2011 related mainly to:

- Bass Basin exploration amounting to $31.0 million on a post-tax basis ($62.9 million pre-tax, $31.9 million tax effect). The impairment is primarily due to the reassessment of the risked future value of a Trefoil development (T/18P) via the BassGas facilities (T/L1) following completion of a detailed internal review during the period; and
- Yemen exploration amounting to $27.6 million on a post-tax basis ($35.3 million pre-tax, $7.7 million tax effect). The impairment is primarily as a consequence of the unrest and political uncertainty that has existed since February 2011 in Yemen. Both Operators of Blocks 7 and 74 have submitted notices of Force Majeure under the terms of the Production Sharing Contract (PSC's) for those blocks.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

16. Oil and gas assets

	2012 $'000	2011 $'000
Oil and gas assets (at cost)	**1,588,111**	1,387,319
Less amortisation and impairment	**(741,085)**	(543,590)
	847,026	843,729
Reconciliation of movements:		
Carrying amount at the beginning of the financial year	**843,729**	817,292
Transfer from exploration assets (2011: Sugarloaf AMI)	**–**	88,740
Acquired (North West Natuna)	**132,731**	–
Additions	**171,531**	57,249
Disposals	**(96,188)**	–
Increase in restoration and abandonment provision (refer note 22)	**9,826**	29,477
Foreign exchange translation difference	**3,176**	(8,433)
Amortisation	**(79,628)**	(104,910)
Impairment charge	**(138,151)**	(35,686)
Carrying amount at the end of the financial year	**847,026**	843,729

Impairment

Impairment tests are performed where there is an indication of impairment. The consolidated entity performs annually an internal review of asset values using cash flow projections, these asset values are then used for impairment testing. Each oil and gas producing asset is considered a separate cash-generating unit. The asset values are used to determine a recoverable amount for each asset based on the higher of its value in use or net selling price. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement with a corresponding reduction in the carrying value of the asset.

The asset valuations are based on a proved and probable (2P) reserve production profile and various estimates and assumptions. The key assumptions used in the cash flow projections include the following:

- Oil and gas prices – a combination of contracted gas prices, forward market prices and longer term observable price forecasts;
- Exchange rates – a combination of current spot USD/AUD exchange rate prevailing at 30 June and long-term observable forecasts; and
- Discount rates – the post-tax discount rate applied to cash flow projections is 10%.

The impairment at 30 June 2012 relates to the BassGas Project and arises due to a reassessment of the costs associated with the Mid-Life Enhancement (MLE) project ($138.2 million pre-tax, $41.4 million tax effect).

Asset valuations, based on cash flow projections, use a range of assumptions that are subject to change. Accordingly, losses are sensitive to reasonable possible changes in key assumptions. The impairment that would arise from a possible change in key assumptions (all other assumptions remaining the same) is shown below:

- A 10% decrease in oil prices would result in additional impairment of $32 million;
- A 10% decrease in the gas price would result in additional impairment of $18 million;
- A 10% increase in exchange rate would result in additional impairment of $27 million; and
- A 1% increase in the post tax discount rate would result in additional impairment of $22 million.

Disposals

During the period, AWE completed the sale of an 11.25% interest in the BassGas project to Toyota Tsusho, reducing AWE's interest in the project from 57.5% to 46.25% effective 1 November 2011.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

17. Other plant and equipment

	2012 $'000	2011 $'000
Other plant and equipment (at cost)	**4,674**	4,446
Less accumulated depreciation	**(2,787)**	(2,310)
	1,887	2,136
Reconciliation of the carrying amount of other plant and equipment is set out below:		
Carrying amount at the beginning of the financial year	**2,136**	2,089
Additions	**373**	854
Depreciation	**(622)**	(617)
Disposal of fixed assets	**–**	(190)
Carrying amount at the end of the financial year	**1,887**	2,136

18. Intangible assets

	2012 $'000	2011 $'000
Intangible assets (at cost)	**3,091**	4,499
Less amortisation	**(2,958)**	(3,414)
	133	1,085
Reconciliation of movements:		
Computer software		
Carrying amount at the beginning of the financial year	**354**	744
Additions	**84**	150
Amortisation	**(305)**	(524)
Disposal of software	**–**	(16)
Carrying amount at the end of the financial year	**133**	354
Loan establishment fees		
Carrying amount at the beginning of the financial year	**731**	1,228
Write-off of loan facility fees	**(731)**	–
Amortisation	**–**	(497)
Carrying amount at the end of the financial year	**–**	731

The loan establishment fees relate to a line of credit which remained undrawn at 30 June 2011. This facility was terminated during the year ended 30 June 2012 and a new multi-currency facility was established. Refer to note 20 for further details.

19. Trade and other payables

	2012 $'000	2011 $'000
Current		
Trade payables	**129**	136
Joint venture creditors (refer note 26(b))	**32,175**	33,589
Net cash interest payments accrued	**1,687**	1,952
Other payables and accrued expenses	**26,771**	14,210
	60,762	49,887

20. Interest-bearing liabilities

	2012 $'000	2011 $'000
Non-current		
Bank loans	**15,660**	–
Less loan establishment fees	**(2,783)**	–
	12,877	–
The consolidated entity has access to the following lines of credit:		
Bank loans	**300,000**	150,000
Facilities utilised at balance date:		
Bank loans	**15,660**	–
Facilities not utilised at balance date:		
Bank loans	**284,340**	150,000
	300,000	150,000

Bank loan – unsecured

A $300 million multi-currency loan facility was established during the year and was used to refinance the previous facility. The facility is available for general corporate purposes and bears interest at the applicable base rate plus a margin. This facility expires in May 2015. At 30 June 2012, $15.6 million had been drawn under the terms of this facility.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

21. Employee benefits

	2012 $'000	2011 $'000
Current		
Provision for employee benefits	**1,146**	1,221
Non-current		
Provision for employee benefits	**536**	743

(a) Superannuation plans

The consolidated entity makes contributions to complying accumulation type superannuation plans nominated by individual employees. The consolidated entity contributes at least the amount required by law. The amount recognised as an expense was $1,051,000 for the financial year ended 30 June 2012 (2011: $1,052,000).

(b) Employee benefits expensed

	2012 $'000	2011 $'000
Salaries and wages	**19,231**	17,751
Share-based payments	**1,571**	2,037
Other associated personnel costs	**6,242**	5,732
	27,044	25,520

Salaries and wages and other associated personnel costs are allocated to various income statement categories based on the function of the expenditure.

(c) Share-based payments – Share Rights Plan

The employee Share Rights Plan is designed to generate performance-based cash awards that may be converted, at the Board's discretion, into cash, AWE shares or other employee benefits.

The key elements of the plan include:

- Rights are granted each year and the number of rights granted will be determined by the employee's level in the Company, fixed remuneration at the time of grant and both the Company and employee's performance in the previous financial year.
- There are three tranches of rights with separate vesting criteria:
  - Retention[(1)];
  - Absolute TSR; and
  - Relative TSR
- The vesting period is for three years, the rights will lapse after three years and there will be no retesting.

(1) Retention rights are not granted to the Managing Director

The conditions for the award of rights and the criteria for vesting are:

Retention Grants

- Number of rights calculated using the 30-day VWAP of the AWE share price in June of grant year.
- Vest after three years if the employee remains employed by AWE.

Absolute TSR Grants

- Number of rights calculated using the 30-day VWAP of the AWE share price in June of grant year.
- Vest after three years according to the Company's Absolute TSR for that three year period.
- The vesting scales to apply for Absolute TSR grants are as follows:

ABSOLUTE TSR RIGHTS GRANTED FROM JUNE 2013 FINANCIAL YEAR		ABSOLUTE RIGHTS GRANTED UP TO JUNE 2012 FINANCIAL YEAR	
AWE TSR	**% OF RIGHTS TO VEST**	**AWE TSR**	**% OF RIGHTS TO VEST**
< 8% pa compound	–	< 6% pa compound	–
8% pa compound	25%	6% pa compound	25%
>8% and <10% pa compound	Pro rata	>6% and <9% pa compound	Pro rata
10% pa compound	50%	9% pa compound	50%
>10% and <12% pa compound	Pro rata	>9% and <12% pa compound	Pro rata
12% pa compound	100%	12% pa compound	100%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

21. Employee benefits (continued)

Relative TSR Grants

- Number of rights calculated using the 30-day VWAP of AWE share price in June of grant year.
- Vest after three years according to the Company's TSR relative to companies in ASX 200 Energy Index in grant year as per the table below (companies no longer in the index are excluded).
- The vesting scales to apply for Relative TSR grants are as follows:

RELATIVE TSR RIGHTS GRANTED FROM JUNE 2013 FINANCIAL YEAR		RELATIVE TSR RIGHTS GRANTED UP TO JUNE 2012 FINANCIAL YEAR	
AWE TSR RELATIVE TO TSR OF COMPANIES IN S&P/ASX ENERGY INDEX AT DATE OF GRANT	% OF RIGHTS TO VEST	AWE TSR RELATIVE TO TSR OF COMPANIES IN S&P/ASX ENERGY INDEX AT DATE OF GRANT	% OF RIGHTS TO VEST
< 50%	–	< 50%	–
50%	25%	50%	50%
>50% and <90%	Pro rata	>50% and <75%	Pro rata
90% and above	100%	75% and above	100%

A summary of rights in the consolidated entity and the Company is as follows:

GRANT DATE	VESTING DATE	OPENING BALANCE	GRANTED	VESTED	LAPSED	CLOSING BALANCE	AWE SHARE PRICE AT DATE OF ISSUE
2012							
19 November 2009	30 June 2012	387,487	–	–	(55,351)	332,136	$2.80
22 January 2010	30 June 2012	1,486,486	–	–	(163,686)	1,322,800	$2.83
31 March 2010	30 June 2012	25,303	–	–	(4,533)	20,770	$2.72
23 April 2010	30 June 2012	11,363	–	–	(1,182)	10,181	$2.58
3 December 2010	30 June 2013	1,895,793	–	–	(185,600)	1,710,193	$1.74
25 June 2011	30 June 2013	402,101	–	–	(62,670)	339,431	$1.21
30 June 2011	30 June 2013	920,246	–	–	–	920,246	$1.28
16 September 2011	30 June 2014	–	3,491,295	–	(341,717)	3,149,578	$1.035
31 October 2011	30 June 2014	–	162,850	–	–	162,850	$1.385
24 November 2011	30 June 2014	–	916,032	–	–	916,032	$1.25
		5,128,779	**4,570,177**	**–**	**(814,739)**	**8,884,217**	
2011							
19 November 2009	30 June 2012	387,487	–	–	–	387,487	$2.80
22 January 2010	30 June 2012	1,529,807	–	–	(43,321)	1,486,486	$2.83
31 March 2010	30 June 2012	25,303	–	–	–	25,303	$2.72
23 April 2010	30 June 2012	30,800	–	–	(19,437)	11,363	$2.58
3 December 2010	30 June 2013	–	1,898,885	–	(3,092)	1,895,793	$1.74
25 June 2011	30 June 2013	–	402,101	–	–	402,101	$1.21
01 February 2011	30 June 2013	–	920,246	–	–	920,246	$1.25
		1,973,397	**3,221,232**	**–**	**(65,850)**	**5,128,779**	

For grants of rights, the fair value has been calculated at the grant date using a Black-Scholes Pricing Model and assuming a vesting probability of 43.5% for performance related awards and a 10% staff turnover rate for retention awards.

The fair value of rights has been calculated at the grant date and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights allocated to this reporting period. The value disclosed does not therefore represent cash received.

The share rights outstanding at 30 June 2012 have fair value in the range of $0.33 to $2.83, and a weighted average remaining contractual life of 1.3 years (2011: 1.5 years).

21. Employee benefits (continued)

The fair value of services rendered in return for share rights granted is measured by reference to the fair value of share rights granted. The inputs into the model are shown in the following table:

GRANT DATE	FAIR VALUE AT MEASUREMENT DATE	WEIGHTED AVERAGE SHARE PRICE	EXPECTED VOLATILITY	EXPECTED DIVIDENDS	VESTING PROBABILITY	ASSUMED STAFF TURNOVER
2012						
16 September 2011	$0.33 to $0.75	$1.035	25.0%	0% to 3%	43.5%	10%
31 October 2011	$0.45 to $1.05	$1.385	25.0%	0% to 3%	43.5%	10%
24 November 2011	$0.54	$1.25	25.0%	0% to 3%	43.5%	10%
2011						
3 December 2010	$0.58 to $1.74	$1.74	25.0%	0% to 3%	43.5%	10%
25 June 2011	$0.43 to $1.21	$1.21	25.0%	0% to 3%	43.5%	10%
1 February 2011*	$0.42	$1.25	25.0%	0% to 3%	43.5%	10%

* As these grants were subject to shareholder approval at the 2011 Annual General Meeting of the Company the fair value has been recalculated from that date being 24 November 2011.

(d) Share-based payments – Employee share option plan

Under the Company's Employee Share Option Plan, options to subscribe for ordinary shares in the Company are issued to employees at the discretion of the directors and the exercise price and exercise period are determined on the basis of rewarding employees if the Company's share price achieves significant long-term growth. Options are unlisted and are granted with exercise prices not less than the average market price of the Company's shares for the five days prior to grant.

The Plan was approved by shareholders at the time of the float of the Company. The sum of the number of shares issued on the exercise of options in the previous five years and the number of unexercised options cannot exceed 5% of the total number of shares on issue at any time.

The terms and conditions of unexercised share options at 30 June 2012 are set out below. The contractual life of all options is five years from grant date. All options are settled on exercise by physical delivery of shares.

GRANT DATE	NUMBER OF OPTIONS	VESTING CONDITIONS	GRANT DATE	NUMBER OF OPTIONS	VESTING CONDITIONS
13 July 2007	2,165,000	(b)	16 May 2008	137,500	(b)
9 October 2007	15,000	(a)	16 May 2008	137,500	(b)
9 October 2007	15,000	(b)	12 June 2008	100,000	(b)
9 October 2007	15,000	(b)	12 June 2008	100,000	(b)
26 November 2007	300,000	(a)	12 June 2008	100,000	(b)
7 April 2008	22,500	(a)	15 August 2008	1,466,000	(b)
7 April 2008	47,500	(b)	16 January 2009	37,500	(b)
7 April 2008	55,000	(b)	16 January 2009	37,500	(b)
			16 June 2009	437,500	(b)

(a) Vested on 31 July 2008.

(b) Subsequent to year end it has been determined that vesting will be retested at the earlier of expiry or 31 July 2013, whichever is the earlier, and is conditional upon satisfaction of performance conditions.

21. Employee benefits (continued)

A summary of outstanding options to acquire ordinary shares in the Company is as follows:

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	OPENING BALANCE	GRANTED	EXERCISED	LAPSED	CLOSING BALANCE	VALUE OF SHARES AT EXERCISE DATE
2012								
21 July 2006	19 July 2011	$3.27	1,225,000	–	–	(1,225,000)	–	–
30 August 2006	19 July 2011	$3.27	50,000	–	–	(50,000)	–	–
10 November 2006	9 November 2011	$3.10	65,000	–	–	(65,000)	–	–
15 January 2007	14 January 2012	$2.86	150,000	–	–	(150,000)	–	–
12 March 2007	11 March 2012	$2.68	555,000	–	–	(555,000)	–	–
13 July 2007	14 July 2012	$3.56	2,315,000	–	–	(150,000)	2,165,000	–
9 October 2007	8 October 2012	$3.56	45,000	–	–	–	45,000	–
26 November 2007	10 April 2012	$2.77	500,000	–	–	(500,000)	–	–
26 November 2007	30 August 2012	$3.18	1,000,000	–	–	(700,000)	300,000	–
7 April 2008	6 April 2013	$3.65	125,000	–	–	–	125,000	–
16 May 2008	12 May 2013	$4.10	275,000	–	–	–	275,000	–
12 June 2008	11 June 2013	$4.08	300,000	–	–	–	300,000	–
15 August 2008	14 August 2013	$3.28	1,566,000	–	–	(100,000)	1,466,000	–
16 January 2009	15 January 2014	$2.60	75,000	–	–	–	75,000	–
16 June 2009	15 June 2014	$2.75	437,500	–	–	–	437,500	–
			8,683,500			(3,495,000)	5,188,500	
2011								
26 September 2005	25 September 2010	$2.10	700,000	–	–	(700,000)	–	–
24 November 2005	24 November 2010	$2.10	300,000	–	–	(300,000)	–	–
24 November 2005	24 November 2010	$2.21	300,000	–	–	(300,000)	–	–
24 November 2005	24 November 2010	$2.31	300,000	–	–	(300,000)	–	–
20 March 2006	19 March 2011	$2.46	300,000	–	–	(300,000)	–	–
20 March 2006	19 March 2011	$2.59	2,100,000	–	–	(2,100,000)	–	–
20 March 2006	19 March 2011	$2.71	2,960,000	–	–	(2,960,000)	–	–
11 April 2006	11 April 2011	$2.66	100,000	–	–	(100,000)	–	–
16 June 2006	15 June 2011	$3.00	275,000	–	–	(275,000)	–	–
21 July 2006	19 July 2011	$3.27	1,225,000	–	–	–	1,225,000	–
30 August 2006	19 July 2011	$3.27	50,000	–	–	–	50,000	–
10 November 2006	9 November 2011	$3.10	65,000	–	–	–	65,000	–
15 January 2007	14 January 2012	$2.86	150,000	–	–	–	150,000	–
12 March 2007	11 March 2012	$2.68	555,000	–	–	–	555,000	–
13 July 2007	14 July 2012	$3.56	2,315,000	–	–	–	2,315,000	–
9 October 2007	8 October 2012	$3.56	45,000	–	–	–	45,000	–
26 November 2007	10 April 2012	$2.77	500,000	–	–	–	500,000	–
26 November 2007	30 August 2012	$3.18	1,000,000	–	–	–	1,000,000	–
7 April 2008	6 April 2013	$3.65	125,000	–	–	–	125,000	–
16 May 2008	12 May 2013	$4.10	275,000	–	–	–	275,000	–
12 June 2008	11 June 2013	$4.08	300,000	–	–	–	300,000	–
15 August 2008	14 August 2013	$3.28	1,566,000	–	–	–	1,566,000	–
16 January 2009	15 January 2014	$2.60	75,000	–	–	–	75,000	–
16 June 2009	15 June 2014	$2.75	437,500	–	–	–	437,500	–
			16,018,500	–	–	(7,335,000)	8,683,500	

The options outstanding at 30 June 2012 have an exercise price in the range of $2.60 to $4.10, and a weighted average remaining contractual life of 0.7 years (2011: 1.2 years).

The fair value of services rendered in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a modified binomial option-pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option-pricing model.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

22. Provisions

	2012 $'000	2011 $'000
Current		
Restoration and abandonment	**8,879**	7,105
Other	**42**	167
	8,921	7,272
Non-current		
Restoration and abandonment	**104,101**	98,282
Other	**897**	897
	104,998	99,179
Reconciliation of movements:		
Restoration and abandonment		
Carrying amount at the beginning of the financial year	**105,387**	76,082
Write back in provisions due to disposals	**(7,391)**	–
Provisions made during the year	**9,826**	29,477
Foreign exchange translation difference	**1,385**	(3,822)
Unwind of discount	**3,773**	3,650
Carrying amount at the end of the financial year	**112,980**	105,387
Other		
Carrying amount at the beginning of the financial year	**1,064**	897
Provisions reversed during the year	**(125)**	–
Provisions made during the year	**–**	167
Carrying amount at the end of the financial year	**939**	1,064

Provisions made for environmental rehabilitation are recognised where there is a present obligation as a result of exploration, development or production activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas. Because of the long-term nature of the liability, the biggest uncertainty in estimating the provision is the costs that will be incurred. In particular, the consolidated entity has assumed that restoration will use technology and materials that are available currently. The basis for accounting is set out in note 1(q).

23. Taxation payable/(receivable)

	2012 $'000	2011 $'000
Income tax – New Zealand	**4,993**	(794)
Accounting Profits Royalty (APR) – New Zealand	**12,576**	6,170
Other	**177**	–
	17,746	5,376

No Australian income tax is payable for the 30 June 2012 financial year. Refer Note 24 for information with regards to the tax loss position of the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

24. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2012 $'000	2011 $'000
Deferred tax asset		
Tax benefit attributable to tax losses	**47,457**	47,127
Provisions and accruals	**34,699**	35,102
Other	**1,227**	618
	83,383	82,847
Deferred tax liability		
Exploration and evaluation assets	**(22,173)**	(21,534)
Oil and gas assets	**(4,214)**	(34,863)
Arising from PRRT and APR	**(24,175)**	(21,142)
	(50,562)	(77,539)
Net deferred tax assets	**32,821**	5,308

Australian Petroleum Resource Rent Tax and New Zealand Accounting Profits Royalty

The consolidated entity applies tax effect accounting to both PRRT and to APR for all of the consolidated entity's onshore and offshore Australian and offshore New Zealand producing operations. Applying tax effect accounting principles to both PRRT and APR causes the tax effect of the difference between the PRRT/APR tax base and the accounting base of these assets to be recognised as a deferred tax asset or deferred tax liability on the balance sheet. The PRRT/APR tax base represents the remaining deductible project costs of the relevant projects. The accounting base represents the written down net balance sheet value of the project which is amortised over the life of reserves. Where the remaining deductible project costs for a project exceed the accounting base and the excess cannot be transferred to a PRRT payable project then no deferred tax asset is recorded. The application of tax effect accounting to both PRRT and APR may impact the reported income tax expense whether or not a current tax liability to pay PRRT or APR arises.

The expansion of the Australian PRRT regime to onshore petroleum projects from 1 July 2012 results in the recognition of a deferred tax asset in respect of the onshore Perth basin operations. The deferred tax asset is calculated as the difference between the accounting written down value and the starting base for PRRT purposes.

Unrecognised deferred tax assets

	2012 $'000	2011 $'000
Tax value of Australian income tax losses (calculated at 30%)	**64,341**	72,261
Deferred tax asset recognised	**(39,207)**	(47,127)
Tax value of Australian income tax losses not recognised as an asset (calculated at 30%)	**25,134**	25,134

The reduction in the deferred tax asset recognised of $7.9 million to $39.2 million is a result of the utilisation of carried forward tax losses to offset Australian taxable income for the year ended 30 June 2012.

Total Australian income tax losses incurred prior to forming a tax consolidated group amount to $29,410,000 (calculated at 30%).

All Australian income tax losses incurred after 30 June 2003 and that remain unutilised at 30 June 2012 have been recorded as a deferred tax asset ($34,931,000 calculated at 30%). There are no unutilised New Zealand tax losses.

Tax losses or Production Sharing Contract (PSC's) credits incurred in other jurisdictions have been treated as permanently not deductible due to uncertainty of future usage due to insufficient estimated recoverable taxable income in those jurisdictions.

All US income tax losses as at 30 June 2012 have been recorded as a deferred tax asset ($8,250,477 calculated at 35%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

25. Capital and reserves

(a) Share capital

	2012 $'000	2011 $'000
521,871,941 (2011: 521,871,941) ordinary shares, fully paid	**772,172**	772,172

There were no movements in share capital during the year.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

(b) Equity compensation reserve

The equity compensation reserve represents the fair value of options expensed by the Company to 30 June 2012.

(c) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where the functional currency is different to the presentation currency of the reporting entity.

(d) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

(e) Dividends paid

	2012 $'000	2011 $'000
Declared and paid during the year:		
Dividends on ordinary shares:		
Special franked dividend for 2012: 5 cent per share (2011: nil)	**26,094**	–

(f) Dividend franking account

	2012 $'000	2011 $'000
30% franking credits available at 30 June	**11,493**	11,493
Franking debits that arise from payment of special dividend during the year	**(11,182)**	–
30% franking credits available to shareholders for subsequent financial years	**311**	11,493

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

26. Interests in oil and gas permits

At the end of the financial year the consolidated entity held the following oil and gas production, exploration and appraisal permits:

		CONSOLIDATED BENEFICIAL INTEREST	
PERMIT	COUNTRY	2012 %	2011 %
T/L1 BassGas	Australia	**46.25**	57.50
T/18P	Australia	**44.75**	47.50
T/44P	Australia	**–**	40.00
VIC/L 24 Casino	Australia	**25.00**	25.00
VIC/L 30 Henry	Australia	**25.00**	25.00
VIC/P 44	Australia	**25.00**	25.00
WA 31 L Cliff Head	Australia	**57.50**	57.50
L1/L2 Dongara	Australia	**100.00**	100.00
L1/L2 Hovea and Eremia	Australia	**50.00**	50.00
L1/L2 Corybas Australia	Australia	**50.00**	50.00
L4/L5/PL 6 Woodada	Australia	**100.00**	100.00
L7 Mt Horner	Australia	**100.00**	100.00
L11 Beharra Springs	Australia	**33.00**	33.00
L14 Jingemia	Australia	**44.14**	44.14
EP 320	Australia	**33.00**	33.00
EP 413	Australia	**44.25**	44.25
EP 455	Australia	**81.50**	90.00
PMP 38158 Tui	New Zealand	**42.50**	42.50
PEP 38259	New Zealand	**25.00**	25.00
PEP 38481	New Zealand	**–**	53.75
PEP 38524	New Zealand	**–**	60.00
PEP 51321	New Zealand	**–**	44.32
PEP 381202	New Zealand	**–**	100.00
Bulu PSC	Indonesia	**42.50**	42.50
East Muriah PSC	Indonesia	**50.00**	50.00
Terumbu PSC	Indonesia	**100.00**	100.00
North Madura PSC	Indonesia	**50.00**	50.00
Titan PSC	Indonesia	**40.00**	40.00
North West Natuna PSC	Indonesia	**100.00**	–
Anambas PSC	Indonesia	**100.00**	–
Las Bases Exploitation Concession	Argentina	**–**	15.00
Yemen Block no. 7	Yemen	**19.25**	19.25
Yemen Block no. 74	Yemen	**29.75**	29.75
Sugarloaf Area of Mutual Interest (AMI)	United States of America	**10.00**	10.00

26. Interests in oil and gas permits (continued)

Included in the assets and liabilities of the Company and the consolidated entity are the following items which represent the Company's and the consolidated entity's interest in the assets and liabilities employed in the permits.

	2012 $'000	2011 $'000
Current assets		
Cash and cash equivalents	**27,022**	11,130
Trade and other receivables	**3,212**	8,888
Inventory	**3,913**	8,096
	34,147	28,114
Non-current assets		
Exploration and evaluation assets	**84,154**	82,516
Oil and gas assets	**869,996**	843,729
	954,150	926,245
Total assets	**988,297**	954,359
Current liabilities		
Trade and other payables	**32,175**	33,589
Total liabilities	**32,175**	33,589

Refer to notes 27 and 28 for details of commitments and contingent liabilities.

27. Capital and other commitments

(a) Capital expenditure commitments

	2012 $'000	2011 $'000
Contracted but not provided for or payable:		
Not later than one year	**73,141**	43,438

Included in capital expenditure commitments is $32.1 million of expenditure related to the BassGas MLE project (BassGas project, T/L1, Bass Basin, offshore Southern Australia, AWE share 46.25%). This project is being progressed in two separate phases: Phase One comprising installation of an accommodation and controls module and additional compression facilities on the platform; and Phase Two comprising the drilling of additional development wells.

Work on Phase One continued during the period with the successful installation of the accommodation and controls module. The installation of the compression module was not able to be completed during the period and has been delayed until the 2012-13 summer period. The project is expected to come back into production in September 2012.

Planning for Phase Two work continues with the drilling of the Yolla-5 and Yolla-6 wells expected to be undertaken during the 2013-14 summer period.

(b) Exploration and evaluation expenditure commitments

	2012 $'000	2011 $'000
Total exploration and evaluation expenditure contracted for but not provided for in the financial statements, payable:		
Not later than one year	**39,676**	42,120
Later than one year but not later than five years	**51,994**	55,384
	91,670	97,504

In order to meet contractual obligations and to maintain the various licences, in which the consolidated entity and its respective joint venture partners are involved, the consolidated entity has ongoing commitments as part of its normal operations. The above exploration, evaluation and capital expenditure commitments represent commitments made to the appropriate government authorities, to the respective joint venture partners and to third party contractors. However, these commitments are subject to continual review within the joint ventures in which the consolidated entity is a participant and the extent of future commitments is subject to continual renegotiation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

27. Capital and other commitments (continued)

(c) Time charter commitments

	2012 $'000	2011 $'000
Floating Production Storage and Offtake vessel ("FPSO") time charter contracted for but not provided for in the financial statements, payable:		
Not later than one year	**13,218**	13,128
Later than one year but not later than five years	**33,553**	44,699
	46,771	57,827

The Operator of the Tui Area oil project (PMP 38158, offshore Taranaki Basin, New Zealand) has entered into a USD denominated charter contract for the provision of an FPSO for the Tui Field development. The Charter Contractor built and operates the FPSO as part of the charter arrangement. The contract is for a fixed initial term to 31 December 2015 with options exercisable by the joint venture for seven one-year extensions. The commitment would increase by A$97,545,444 if the full seven-year option is exercised.

(d) Non-cancellable operating lease rental commitments

	2012 $'000	2011 $'000
Future operating lease rentals, not provided for in the financial statements, payable:		
Not later than one year	**1,681**	786
Later than one year but not later than five years	**2,883**	4,131
	4,564	4,917

Office premises – the consolidated entity leases a number of premises all of which expire no later than June 2016. During the financial year, $1,500,000 was recognised as an expense in the income statement (2011: $1,840,000).

BassGas operations - the consolidated entity has entered into a lease contract relating to the provision of generators and compressors for one of its producing oil and gas assets.

(e) Remuneration commitments

	2012 $'000	2011 $'000
Commitments for the payment of salaries and other compensation under long-term employment contracts in existence at the end of each reporting period but not provided for in the financial statements, payable:		
Not later than one year	**1,046**	1,359
Later than one year but not later than five years	**485**	1,825
	1,531	3,184

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

28. Contingencies

(a) The Operator of the Tui Area oil project (PMP 38158, offshore Taranaki Basin, New Zealand) has entered into a charter contract for the provision of an FPSO for the Tui Field development. The Charter Contractor built and operates the FPSO as part of the charter arrangement. The contract is for a fixed initial term to 31 December 2015 with options exercisable by the joint venture for seven one-year extensions. The consolidated entity has provided a letter of credit for the benefit of the Charter Contractor amounting to US$11.9 million (2011: US$15.5 million).

(b) The consolidated entity has entered into agreements whereby it is required to pay a Net Cash Interest to the previous owners of a wholly-owned controlled entity of the Company, AWE Taranaki Limited (previously New Zealand Overseas Petroleum Limited), if returns from the Tui Area oil project in PMP 38158 exceed certain benchmark levels.

(c) The consolidated entity has entered into joint venture operations with other parties for the purpose of exploring and developing its permit interests. If a party to a joint venture operation defaults and does not contribute its share of joint venture operation obligations, then the other joint venturers are liable to meet those obligations. In this event, the permit interest held by the defaulting party may be redistributed to the remaining joint venturers.

(d) In accordance with normal oil and gas industry practice and under the terms of various joint venture operating and product sales agreements, the consolidated entity has provided performance guarantees to wholly-owned controlled entities and guarantees to fulfil its permit obligations in various jurisdictions where it conducts its operations.

(e) The Company has entered into Indemnity Deeds to indemnify executives of the Company against all liabilities incurred in the course of or arising out of their employment with the Company and its controlled entities, except where the liability results wholly or in part from serious and wilful misconduct by the executive.

(f) The consolidated entity provides for all known environmental liabilities. There can be no assurance that material new provisions will not be required as a result of new information or regulatory requirements with respect to the consolidated entity's assets.

(g) The Native Title Act ("NTA") may impact on the consolidated entity's ability to gain access to new prospective exploration areas or obtain production titles. Some of the consolidated entity's onshore petroleum tenements now include land that is the subject of a Native Title claim under the NTA. Under the NTA, all claims for Native Title are subject to the rights derived from the grant to the consolidated entity of its existing petroleum tenements for the term of that grant and any routine renewals. The consolidated entity is not liable to pay any compensation to Native Title parties by exercising its rights existing to petroleum tenements.

29. Reconciliation of cash flows from operating activities

	2012 $'000	2011 $'000
Cash flows from operating activities		
Loss for the period	**(66,496)**	(117,555)
Adjustments for:		
Amortisation of oil and gas assets	**79,628**	104,910
Amortisation of intangible assets	**305**	524
Depreciation	**622**	617
Loss on disposal of fixed assets	**–**	207
Gain on disposal of available-for-sale financial assets	**(12,681)**	–
Gain on disposal of part interest in BassGas project	**(2,402)**	–
Impairment of oil and gas assets	**138,151**	35,686
Impairment of exploration and evaluation assets	**–**	101,324
Exploration drilling costs	**11,289**	41,966
Loan establishment fees written off/amortised	**803**	497
Unwinding of discount – restoration provisions	**3,773**	3,650
Share-based payments	**1,571**	2,038
Net foreign currency losses	**1,235**	5,279
Non-cash gains recognised in other income	**(241)**	(1,426)
Non-cash taxation expense	**(14,361)**	(51,575)
Change in assets and liabilities during the financial year:		
(Increase)/decrease in trade and other receivables	**(8,229)**	18,797
Decrease/(increase) in oil inventory	**1,382**	(4,261)
Increase/(decrease) in provisions and employee benefits	**(422)**	525
Decrease in accounts payable	**(10,059)**	(1,350)
Net cash from operating activities	**123,868**	139,853

30. Controlled entities

NAME	NOTE	COUNTRY OF INCORPORATION	EQUITY HOLDING 2012 %	2011 %
Parent entity				
AWE Limited				
Controlled entities				
AWE Administration Pty Limited	(a)	Australia	**100**	100
AWE Finance Pty Limited	(a)	Australia	**100**	100
AWE Overseas Pty Limited	(a)	Australia	**100**	100
AWE Offshore Pty Limited	(a)	Australia	**100**	100
AWE Argentina Pty Limited	(a),(b)	Australia	**100**	100
AWE New Zealand Pty Limited	(a),(b)	Australia	**100**	100
AWE UK Pty Limited	(a)	Australia	**100**	100
AWE Australia Pty Limited	(a)	Australia	**100**	100
Omega Oil Pty Ltd	(a)	Australia	**100**	100
Wells Fargo Resources Pty Ltd		Australia	**100**	100
AWE Petroleum Pty Ltd	(a)	Australia	**100**	100
Peedamullah Petroleum Pty Ltd	(a)	Australia	**100**	100
AWE Services Pty Ltd	(a)	Australia	**100**	100
AWE Resources (Western Australia) Pty Ltd	(a)	Australia	**100**	100
AWE Oil (Western Australia) Pty Ltd	(a)	Australia	**100**	100
Perthshire Petroleum Pty Ltd	(a)	Australia	**100**	100
Tepstew Pty Ltd	(a)	Australia	**100**	100
Western Petroleum Management Pty Ltd	(a)	Australia	**100**	100
AWE (NSW) Pty Ltd	(a)	Australia	**100**	100
AWE (Australia) Energy Pty Ltd	(a)	Australia	**100**	100
AWE Energy (Australasia) Pty Ltd	(a)	Australia	**100**	100
ARC Energy Pty Limited	(a)	Australia	**100**	100
ARC (Beharra Springs) Pty Ltd	(a)	Australia	**100**	100
ARC Energy Holdings Pty Limited	(a)	Australia	**100**	100
ARC Energy Trading Pty Ltd	(a)	Australia	**100**	100
ARC Investment Company Pty Ltd	(a)	Australia	**100**	100
ARC (Wandoo) Pty Ltd	(a)	Australia	**100**	100
ARC (Bass Gas) Pty Ltd	(a)	Australia	**100**	100
ARC (Offshore PB) Pty Limited	(a)	Australia	**100**	100
Adelphi Energy Pty Limited	(a)	Australia	**100**	100
Adelphi Energy (Yemen) Pty Ltd	(a)	Australia	**100**	100
AWE Malaysia Pty Limited	(c)	Australia	**100**	–
Adelphi Energy Texas Inc.		USA	**100**	100
AWE Finance US Inc.	(c)	USA	**100**	–
Adelphi Energy Yemen (B74) Limited		British Virgin Islands	**100**	100
AWE Holdings NZ Limited		New Zealand	**100**	100
AWE Taranaki Limited		New Zealand	**100**	100
AWE (Satria) NZ Limited		New Zealand	**100**	100
AWE (East Muriah) NZ Limited		New Zealand	**100**	100
AWE (Terumbu) NZ Limited		New Zealand	**100**	100
AWE (North Madura) NZ Limited		New Zealand	**100**	100
AWE (Titan) NZ Limited		New Zealand	**100**	100
AWE Finance NZ Limited	(c)	New Zealand	**100**	–
AWE (AAL) NZ Limited	(c)	New Zealand	**100**	–
AWE Singapore Pte. Ltd.		Singapore	**100**	100
AWE Holdings Singapore Pte. Ltd.		Singapore	**100**	100
AWE Vietnam Pte. Ltd.		Singapore	**100**	100
AWE (Northwest Natuna) Pte. Ltd.	(c)	Singapore	**100**	–
AWE (Anambas) Pte. Ltd.	(c)	Singapore	**100**	–
AWE Offshore UK Limited		UK	**100**	100
Greenslopes Limited		Papua New Guinea	**100**	100

(a) These controlled entities are a party to a Deed of Cross Guarantee between those group entities and the Company pursuant to ASIC Class Order 98/1418 and are not required to prepare and lodge financial statements and directors' reports (refer note 35). The Company and those group entities are the "Closed Group".

(b) AWE New Zealand Pty Limited and AWE Argentina Pty Limited are Australian companies with branches in New Zealand and Argentina respectively.

(c) These entities were acquired or were incorporated during the year.

31. Financial risk management

The consolidated entity has exposure to market, credit and liquidity risks from its use of financial instruments in the normal course of its business. This note presents information about the consolidated entity's exposure to each of the above risks.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework of the consolidated entity. The Board has established an Audit and Governance Committee and a Sustainability Committee, which are responsible for developing and monitoring risk management policies.

The Sustainability Committee's primary role is to advise and assist the Board of Directors in assessing risk factors associated with the execution of projects in which the consolidated entity has equity or participatory interests. The Audit and Governance Committee assesses the internal processes for determining and managing key financial risk areas. In addition, the Audit and Governance Committee ensures that the consolidated entity has an effective financial risk management system and that macro risks to the Company are reported to the Board. The consolidated entity's financial risk management policies and systems are reviewed annually by the Audit and Governance Committee to reflect changes in market conditions and the consolidated entity's activities.

The consolidated entity, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The consolidated entity's management of financial risk aims to ensure that sufficient liquidity is available to fund its business plans. Identification and analysis of relevant financial risks to the achievement of the organisation's objectives forms the basis for determining how such risks should be managed. The forecast financial position of the consolidated entity is continually monitored and derivative financial instruments can be used to hedge exposure to fluctuations in interest rates, exchange rates and commodity prices.

Hedging activities are conducted in accordance with the hedging policy endorsed by the Board. The following guidelines have been set by the Board in reviewing proposals to hedge:

- No speculative hedging is to be entered into;
- Only specific commitments and exposures are to be hedged;
- No hedging program is to be entered into without the prior approval of the Board;
- Hedging transactions must take into account any bank loan covenants that the Company has in place; and
- Any hedging program will ensure that the net exposure will not increase as a result of entering into the hedge.

(a) Market risk

(i) Commodity price risk

The consolidated entity has revenue from the sale of hydrocarbons – gas, crude oil, condensate and LPG. Australian gas sales are not subject to commodity price risk as the product is sold in Australian Dollars under long-term contracts with CPI escalators in place. However, crude oil, condensate and LPG are priced against world benchmark commodity prices and the consolidated entity is therefore subject to significant commodity price risk for these products. The consolidated entity may enter into certain derivative instruments to manage its commodity price risk. As at the end of the financial year, the consolidated entity has no commodity price hedging or derivatives in place.

(ii) Interest rate risk

A controlled entity of the Company has available an unsecured multi-currency corporate loan facility of up to A$300 million equivalent (2011: A$150 million equivalent). The facility utilised at 30 June 2012 was $15.7 million (NZ$20 million) (refer note 20). When drawn, the Australian Dollar portion of the facility bears interest at the bank bill swap rate plus a margin, the United States Dollar portion of the facility bears interest at LIBOR plus a margin and the New Zealand portion of the facility bears interest at BKBM plus a margin. Borrowings under the facility are floating rate borrowings and if the facility is drawn the consolidated entity would be subject to interest rate risk from movements in the Australian dollar bank bill swap rate, United States dollar LIBOR and New Zealand BKBM.

Similarly, the consolidated entity is subject to interest rate risk from movements in the Australian, United States and New Zealand cash rates on cash held.

The consolidated entity may enter into certain derivative instruments to manage its interest rate risk. As at the end of the financial year, the consolidated entity has no interest rate hedging or derivatives in place.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

31. Financial risk management (continued)

(iii) Foreign exchange risk

The consolidated entity operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States and New Zealand dollars.

The consolidated entity is subject to the following significant foreign exchange risks:

- the sale of crude oil, condensate and LPG which are priced against world benchmark United States Dollar commodity prices;
- domestic and international operating, development and exploration expenditures which can be incurred in a number of different currencies, especially United States and New Zealand Dollars; and
- consolidation of entities with a functional currency different to the entity's functional currency of Australian dollars.

The following measures are taken to reduce the consolidated entity's foreign currency exposure:

- surplus funds are held in a mixture of both United States, New Zealand and Australian Dollars;
- where possible, specific commitments and exposures are hedged naturally by using United States Dollar revenues to fund United States Dollar denominated expenditures;
- to meet other foreign currency obligations the consolidated entity purchases foreign currency as the obligations accrue; and
- debt facilities have been arranged such that, if required, borrowings can be denominated in United States, New Zealand and Australian Dollars.

The consolidated entity may enter into certain derivative instruments to manage its foreign exchange risk. As at the end of the financial year, the consolidated entity has no foreign exchange hedging or derivatives in place.

The following significant exchange rates applied during the year:

	AVERAGE RATE		SPOT RATE AT THE END OF THE REPORTING PERIOD	
	2012	**2011**	**2012**	**2011**
AUD/USD	**1.0317**	0.9890	**1.0191**	1.0739
AUD/NZD	**1.2834**	1.3047	**1.2771**	1.2953

The financial instruments denominated in United States dollars and New Zealand dollars are as follows:

	2012 $'000	**2011 $'000**
United States dollars:		
Financial assets:		
Cash	**12,856**	41,400
Trade and other receivables	**31,209**	19,026
Financial liabilities:		
Trade and other payables	**(14,486)**	(12,953)
New Zealand dollars:		
Financial assets:		
Cash	**1,335**	8,169
Financial liabilities:		
Trade and other payables	**(91)**	–
Bank loans	**(15,660)**	–
The effects of exchange rate fluctuations on the balances of cash held in foreign currencies shown in the Consolidated Statement of Cash Flows is as follows:		
Effect of exchange rate fluctuations on the balances of cash held in foreign currencies	**4,665**	(9,906)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

31. Financial risk management (continued)

Summarised sensitivity analysis

The following table summarises the sensitivity of the consolidated entity's financial assets and financial liabilities to interest rate risk, foreign exchange risk and other price risk.

		COMMODITY & OTHER PRICE RISK				INTEREST RATE RISK				FOREIGN EXCHANGE RISK			
		-10%		+10%		-1%		+1%		-10%		+10%	
	CARRYING AMOUNT $'000	PROFIT $'000	OTHER EQUITY $'000	PROFIT $'000	OTHER EQUITY $'000	PROFIT $'000	OTHER EQUITY $'000	PROFIT $'000	OTHER EQUITY $'000	PROFIT $'000	OTHER EQUITY $'000	PROFIT $'000	OTHER EQUITY $'000
30 June 2012													
Financial assets													
Cash and cash equivalents	**42,759**	**–**	**–**	**–**	**–**	**(299)**	**–**	**299**	**–**	**1,014**	**–**	**(1,014)**	**–**
Trade and other receivables	**45,612**	**(2,219)**	**–**	**2,219**	**–**	**–**	**–**	**–**	**–**	**2,185**	**–**	**(2,185)**	**–**
Financial liabilities													
Trade and other payables	**60,762**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,014)**	**–**	**1,014**	**–**
Bank loans	**15,660**	**–**	**–**	**–**	**–**	**(110)**	**–**	**110**	**–**	**(1,096)**	**–**	**1,096**	
Total increase/(decrease)		**(2,219)**	**–**	**2,219**	**–**	**(189)**	**–**	**189**	**–**	**(2,141)**	**–**	**2,141**	**–**
30 June 2011													
Financial assets													
Cash and cash equivalents	117,168	–	–	–	–	(820)	–	820	–	3,492	–	(3,492)	–
Trade and other receivables	33,762	(1,597)	–	1,597	–	–	–	–	–	1,332	–	(1,332)	–
AFS investments	15,927	–	(1,115)	–	1,115	–	–	–	–	–	–	–	–
Financial liabilities													
Trade and other payables	49,887	–	–	–	–	–	–	–	–	(907)	–	907	–
Total increase/(decrease)		**(1,597)**	**(1,115)**	**1,597**	**1,115**	**(820)**	**–**	**820**	**–**	**3,917**	**–**	**(3,917)**	**–**

(b) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position is the carrying amount, net of any provision for doubtful debts.

Exposure to credit risk

Credit risk arises from the financial performance of:

- Customers receiving supplies of hydrocarbons from the consolidated entity. Trade receivable balances are monitored on an ongoing basis and further, the nature of upstream oil and gas operations is that hydrocarbons are generally sold to large creditworthy companies, with the result being that the consolidated entity's exposure to bad debts is not significant.
- The financial institutions holding the cash and short-term deposits of the consolidated entity. In accordance with Board policy, funds are invested with up to a maximum of eight financial institutions with short-term security ratings of A1 or better and subject to working capital considerations, not more than $50 million is to be invested with any one financial institution.
- The joint venture participants with which the consolidated entity is involved. If a participant to a joint venture defaults and fails to contribute its share of joint venture obligations, the remaining joint venture participants are liable to meet the obligations of the defaulting participant. In this event the interest in the tenement of the defaulting participant may be redistributed to the remaining participants.

Receivables, cash and cash equivalents represent the Company's and the consolidated entity's maximum exposure to credit risk:

	2012 $'000	2011 $'000
Cash	**42,759**	117,168
Trade and other receivables	**45,612**	33,762

The consolidated entity does not hold any credit derivatives to offset its credit exposure. There is no concentration of credit risk to a single party.

The ageing of trade receivables at the end of each reporting period was as follows:

	2012 $'000	2011 $'000
Less than 1 month	**31,594**	19,533
1 month to 3 months	**35**	375
Greater than 3 months	**59**	2,907

There are no trade receivables past due or impaired at the end of the reporting period (2011: Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

31. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due.

Responsibility for liquidity risk management rests with the Board of Directors who have built an appropriate framework for the management of the consolidated entity's short, medium and long-term funding and liquidity management requirements.

The consolidated entity manages liquidity risk by continually monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities. Short and long-term cash flow projections are prepared periodically and submitted to the Board at each Board meeting of the Company.

Contractual cash flows

	NOTE	TOTAL $'000	LESS THAN 1 YEAR $'000	1-2 YEARS $'000	2-5 YEARS $'000	MORE THAN 5 YEARS $'000
2012						
Consolidated						
Trade and other payables	**19**	**60,762**	**60,762**	**–**	**–**	**–**
Bank loans		**15,660**	**–**	**–**	**15,660**	**–**
2011						
Consolidated						
Trade and other payables	19	**49,887**	49,887	–	–	–

(d) Fair values of financial assets and liabilities

The carrying values of financial assets and liabilities of the consolidated entity and the Company approximate their fair value. The fair values are determined as follows:

- the fair value of financial assets and liabilities with standard terms and conditions and traded on an active liquid market is determined with reference to the quoted price; and
- the fair value of other financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analyses.

AWE Limited has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the consolidated entity's assets and liabilities, per the requirements of AASB 7, measured and recognised at fair value as at each balance date:

	NOTE	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
30 June 2012					
Assets					
Available-for-sale financial assets – equity securities	**14**	**–**	**–**	**–**	**–**
30 June 2011					
Assets					
Available-for-sale financial assets – equity securities	14	15,927	–	–	15,927

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the consolidated entity is the current bid price. These instruments are included in level 1. There were no available-for-sale financial assets during the year.

(e) Capital management

The consolidated entity maintains an ongoing review of its capital management program to ensure appropriate allocation of its capital resources.

The first order of priority for capital management initiatives is to ensure payment of its financial obligations.

The second order of priority for capital management is to fund new growth initiatives.

The overriding objective is to provide strong total shareholder returns.

The future payment of dividends is regularly reviewed by the Board, taking into account the Company's future funding requirements. The Board will endeavour to pay dividends where it can do so in a tax effective manner to AWE shareholders.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

32. Related party disclosures

Key management personnel disclosures

(a) Key management personnel compensation

The key management personnel compensation included in note 21 is as follows:

	2012 $'000	2011 $'000
Salaries and wages	**4,371**	5,556
Share-based payments	**857**	883
Other associated personnel costs	**56**	116
	5,284	6,555

(b) Individual directors' and executives' compensation disclosures

Apart from the details disclosed in this note, no director or executive has entered into a material contract with the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' or executives' interests existing at year-end.

(c) Share rights

The movement during the financial year in the number of share rights in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	OPENING BALANCE	GRANTED AS REMUNERATION	EXERCISED	NET CHANGE OTHER	CLOSING BALANCE
2012					
Directors					
B. F. W. Clement(i)	**920,245**	**916,030**	**–**	**–**	**1,836,275**
Executives					
N. F. Kelly	**246,099**	**229,557**	**–**	**–**	**475,656**
I. D. Palmer(ii)	**246,099**	**–**	**–**	**(246,099)**	**–**
D. Washer	**321,424**	**296,904**	**–**	**–**	**618,328**
B. W. Wray(iii)	**256,798**	**239,389**	**–**	**(496,187)**	**–**
D. R. N. Gaudoin(iv)	**276,262**	**280,917**	**–**	**–**	**557,179**
A. Saridas(v)	**–**	**162,850**	**–**	**–**	**162,850**
2011					
Directors					
B. F. W. Clement(i)	–	920,245	–	–	920,245
B. J. W. Wood(vi)	387,487	–	–	(387,487)	–
Executives					
N. F. Kelly	103,611	142,488	–	–	246,099
I. D. Palmer	103,611	142,488	–	–	246,099
D. Washer	133,018	188,406	–	–	321,424
B. W. Wray	108,115	148,683	–	–	256,798
D. Gaudoin	116,310	159,952	–	–	276,262
L. J. Brooks(vii)	121,624	167,259	–	(288,883)	–

(i) B. F. W. Clement was appointed as Managing Director on 1 February 2011. These share rights were approved by shareholders at the 2011 Annual General Meeting of the Company.

(ii) I. D. Palmer was previously considered to be a member of key management personnel by virtue of being one of the five highest paid executives of the consolidated entity but is no longer considered to be a member of key management personnel.

(iii) B. W. Wray ceased employment on 31 January 2012.

(iv) D. R. N. Gaudoin was General Manager, Europe to 6 February 2011. He was appointed General Manager, Exploration and Geoscience for the AWE Group on 7 February 2011.

(v) A. Saridas commenced employment as Chief Financial Officer on 31 October 2011.

(vi) B. J. W. Wood ceased to be a director of the Company on 31 January 2011 and ceased to be a key management person from that date. He ceased employment on 31 July 2011.

(vii) L. J. Brooks was General Manager, Exploration to 6 February 2011 and ceased to be a key management person from that date but continued to be employed by the AWE group for the full year 2011 financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

32. Related party disclosures (continued)

(d) Options over equity instruments

The movement during the financial year in the number of options in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	OPENING BALANCE	EXERCISED	LAPSED UNEXERCISED	NET CHANGE OTHER	CLOSING BALANCE
2012					
Directors					
B. F. W. Clement(i)	–	–	–	–	–
Executives					
D. Gaudoin(ii)	**200,000**	–	–	–	**200,000**
N. F. Kelly	**380,000**	–	**(130,000)**	–	**250,000**
I. D. Palmer(iii)	**300,000**	–	–	–	**300,000**
D. Washer	**300,000**	–	**(50,000)**	–	**250,000**
B. W. Wray(iv)	**400,000**	–	–	**(400,000)**	–
A. Saridas(v)	–	–	–	–	–
2011					
Directors					
B. F. W. Clement(i)	–	–	–	–	–
B. J. Phillips(vi)	900,000	–	(900,000)	–	–
B. J. W. Wood(vii)	1,500,000	–	–	(1,500,000)	–
Executives					
D. Gaudoin(ii)	200,000	–	–	–	200,000
N. F. Kelly	1,330,000	–	(950,000)	–	380,000
I. D. Palmer(iii)	900,000	–	(600,000)	–	300,000
D. Washer	575,000	–	(275,000)	–	300,000
B. W. Wray(iv)	400,000	–	–	–	400,000
L. J. Brooks(viii)	1,250,000	–	(850,000)	(400,000)	–

(i) B. F. W. Clement was appointed as Managing Director on 1 February 2011.

(ii) D. R. N. Gaudoin was General Manager, Europe to 6 February 2011. He was appointed General Manager, Exploration and Geoscience for the AWE Group on 7 February 2011.

(iii) I. D. Palmer was previously considered to be a member of key management personnel by virtue of being one of the five highest paid executives of the consolidated entity but is no longer considered to be a member of key management personnel.

(iv) B. W. Wray ceased employment on 31 January 2012.

(v) A. Saridas commenced employment as Chief Financial Officer on 31 October 2011.

(vi) B. J. Phillips was appointed a director of the Company on 19 November 2009. The options lapsing unexercised in the previous financial year relate to options which were granted during his employment with the Company up to 31 December 2007.

(vii) B. J. W. Wood ceased to be a director of the Company on 31 January 2011 and ceased to be a key management person from that date. He ceased employment on 31 July 2011 and options held lapsed on cessation of employment.

(viii) L. J. Brooks was General Manager, Exploration to 6 February 2011 and ceased to be a key management person from that date but continued to be employed by the AWE group for the full year 2011 financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

32. Related party disclosures (continued)

(e) Movements in shares

The movement during the financial year in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	OPENING BALANCE	GRANTED AS REMUNERATION	RECEIVED ON EXERCISE OF OPTIONS	NET CHANGE OTHER	CLOSING BALANCE
2012					
Directors					
B. F. W. Clement(i)	**–**	**–**	**–**	**30,000**	**30,000**
B. J. Phillips	**2,900,914**	**–**	**–**	**–**	**2,900,914**
V. Braach-Maksvytis(ii)	**–**	**–**	**–**	**–**	**–**
A. J. Hogendijk	**10,000**	**–**	**–**	**–**	**10,000**
N. N. Jukes(iii)	**–**	**–**	**–**	**–**	**–**
D. I. McEvoy	**30,000**	**–**	**–**	**–**	**30,000**
K. Williams	**–**	**–**	**–**	**20,000**	**20,000**
Executives					
D. Gaudoin(iv)	**–**	**–**	**–**	**–**	**–**
N. F. Kelly	**125,476**	**–**	**–**	**–**	**125,476**
I. D. Palmer(v)	**–**	**–**	**–**	**–**	**–**
D. Washer	**10,000**	**–**	**–**	**–**	**10,000**
B. W. Wray(vi)	**25,000**	**–**	**–**	**(25,000)**	**–**
A. Saridas(vii)	**–**	**–**	**–**	**–**	**–**
2011					
Directors					
B. F. W. Clement(i)	–	–	–	–	–
B. J. Phillips	2,900,914	–	–	–	2,900,914
V. Braach-Maksvytis(ii)	–	–	–	–	–
A. J. Hogendijk	10,000	–	–	–	10,000
N. N. Jukes(iii)	–	–	–	–	–
D. I. McEvoy	30,000	–	–	–	30,000
K. Williams	–	–	–	–	–
B. G. McKay(viii)	265,610	–	–	(265,610)	–
B. J. W. Wood(ix)	176,885	–	–	(176,885)	–
Executives					
D. Gaudoin(iv)	–	–	–	–	–
N. F. Kelly	125,476	–	–	–	125,476
I. D. Palmer(v)	–	–	–	–	–
D. Washer	20,000	–	–	(10,000)	10,000
B. W. Wray(vi)	25,000	–	–	–	25,000
L. J. Brooks(x)	1,301,910	–	–	(1,301,910)	–

(i) B. F. W Clement was appointed a director of the Company on 1 February 2011.
(ii) V. Braach-Maksvytis was appointed a director of the Company on 7 October 2010.
(iii) N. N. Jukes was appointed a director of the Company on 24 August 2010.
(iv) D. R. N. Gaudoin was General Manager, Europe to 6 February 2011. He was appointed General Manager, Exploration and Geoscience for the AWE Group on 7 February 2011.
(v) I. D. Palmer was previously considered to be a member of key management personnel by virtue of being one of the five highest paid executives of the consolidated entity but is no longer considered to be a member of key management personnel.
(vi) B. W. Wray ceased employment on 31 January 2012.
(vii) A. Saridas commenced employment as Chief Financial Officer on 31 October 2011.
(viii) B. G. McKay retired as a director of the Company on 18 November 2010.
(ix) B. J. W. Wood ceased to be a director of the Company on 31 January 2011 and ceased to be a key management person from that date. He ceased employment on 31 July 2011.
(x) L. J. Brooks was General Manager, Exploration to 6 February 2011 and ceased to be a key management person from that date but continued to be employed by the AWE group for the full year.

32. Related party disclosures (continued)

Changes in shareholdings classified as "Net change other" in the table above do not necessarily reflect purchases or disposals of shares but may include movements relating to changes in key management personnel during the period.

No shares were granted to key management personnel during the financial year as remuneration.

The disclosures above may not be consistent with the disclosure in the Directors' Report as the basis of calculation differs due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.

(f) Key management personnel transactions with the Company or its controlled entities

No loans have been made to key management personnel. The Company has entered into Indemnity Deeds to indemnify executives of the Company against certain liabilities incurred in the course of performing their duties.

(g) Non-key management personnel disclosures

The consolidated entity has a related party relationship with its controlled entities (note 30), joint ventures (note 26) and with its key management personnel. The Company and its controlled entities engage in a variety of related party transactions in the ordinary course of business. These transactions are generally conducted on normal terms and conditions.

33. Parent entity disclosures

As at, and throughout the year ended 30 June 2012 the parent company of the consolidated entity was AWE Limited.

	THE COMPANY	
	2012 $'000	**2011 $'000**
Result of the parent entity		
Loss for the period	**(4,475)**	(23,168)
Other comprehensive income	**–**	–
Total comprehensive income for the period	**(4,475)**	(23,168)
Financial position of the parent entity at year end		
Current assets	**357,288**	378,263
Total assets	**883,472**	912,627
Current liabilities	**1,311**	1,468
Total liabilities	**1,311**	1,468
Net assets	**882,161**	911,159
Total equity of the parent entity comprising of:		
Share capital	**772,172**	772,172
Reserves	**11,167**	9,596
Retained earnings	**98,822**	129,391
Total equity	**882,161**	911,159

Parent entity contingencies and commitments

The contingent liabilities of the parent entity as at the end of the reporting period are disclosed in note 28. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

The parent entity did not have any capital or expenditure commitments as at end of the reporting period.

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in Note 34.

34. Deed of cross guarantee

The Company and certain of the Company's wholly-owned subsidiaries have entered into a Deed of Cross Guarantee. Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, certain of the Company's wholly-owned subsidiaries (refer note 30) are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial statements, and directors' report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

A consolidated statement of financial position and consolidated income statement, comprising the Company and controlled entities which are a party to the Deed of Cross Guarantee, at 30 June 2012, is set out as follows:

Consolidated statement of financial position

	CLOSED GROUP	
	2012 $'000	**2011 $'000**
Current assets		
Cash and cash equivalents	**30,812**	100,280
Trade and other receivables	**135,946**	27,840
Inventory	**5,517**	10,044
Total current assets	**172,275**	138,164
Non-current assets		
Investments	**11,341**	27,268
Exploration and evaluation assets	**73,911**	72,260
Oil and gas assets	**638,689**	793,115
Other property, plant and equipment	**1,836**	2,144
Intangible assets	**2,915**	1,085
Deferred tax assets	**31,141**	3,909
Total non-current assets	**759,833**	899,781
Total assets	**932,108**	1,037,945
Current liabilities		
Trade and other payables	**34,304**	60,894
Employee benefits	**996**	1,079
Provisions	**8,675**	7,184
Taxation payable	**7,981**	912
Total current liabilities	**51,956**	70,069
Non-current liabilities		
Employee benefits	**536**	743
Provisions	**88,579**	84,153
Total non-current liabilities	**89,115**	84,896
Total liabilities	**141,071**	154,965
Net assets	**791,037**	882,980
Equity		
Issued capital	**772,172**	772,172
Reserves	**21,822**	15,337
Retained earnings	**(2,957)**	95,471
Total equity	**791,037**	882,980

Summarised consolidated income statement

	2012 $'000	**2011 $'000**
Loss before tax	**(84,184)**	(163,521)
Income tax benefit	**11,850**	49,313
Net loss after tax for the year	**(72,334)**	(114,208)
Retained earnings at the beginning of the year	**95,471**	209,679
Dividends provided for or paid	**(26,094)**	–
Retained earnings at the end of the year	**(2,957)**	95,471

35. Events subsequent to balance date

In the opinion of the directors, no matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

(a) the consolidated entity's operations in future financial years;

(b) the results of those operations in future financial years; or

(c) the consolidated entity's state of affairs in future financial years.